CITY OF TEMPE, ARIZONA SINGLE AUDIT REPORTING PACKAGE FOR THE YEAR ENDED JUNE 30, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the City Council City of Tempe, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tempe, Arizona as of and for the year ended June 30, 2006, which collectively comprise the City of Tempe, Arizona's basic financial statements and have issued our report thereon dated October 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Tempe, Arizona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tempe, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Honorable Mayor, Members of the City Council, City management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Melech & Co., P.C.

HEINFELD, MEECH & CO., P.C. Certified Public Accountants

October 16, 2006

Gary Heinfeld, CPA, CGFM Nancy A. Meech, CPA, CGFM Jennifer L. Shields, CPA Corey Arvizu, CPA Scott W. Kies, CPA Kimberly A. Robinson, CPA Kera Badalamenti, CPA 3033 N. Central Avenue, Suite 300 Phoenix, Arizona 85012 (602) 277-9449 Fax (602) 277-9297

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council City of Tempe, Arizona

Compliance

We have audited the compliance of the City of Tempe, Arizona with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Tempe, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Tempe, Arizona's management. Our responsibility is to express an opinion on the City of Tempe, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Tempe, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Tempe, Arizona's compliance with those requirements.

In our opinion, the City of Tempe, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Tempe, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Tempe, Arizona's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tempe, Arizona as of and for the year ended June 30, 2006, and have issued our report thereon dated October 16, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Tempe, Arizona's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Honorable Mayor, Members of the City Council, City management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, melch & Co., P.C

HEINFELD, MEECH & CO., P.C. Certified Public Accountants

October 16, 2006

CITY OF TEMPE, ARIZONA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	CFDA <u>Number</u>	Grantor's <u>Number</u>	Expenditures <u>& Transfers</u>	
U.S. Department of Housing and Urban Development				
Direct Programs:				
Section 8 Housing Choice Vouchers	14.871	N/A	\$ 7,840,073	
Community Development Block Grant	14.218	N/A	3,559,582	
Passed through Maricopa County:				
HOME Program	14.239	M-03-DC-04-0227	143,530	
HOME Program	14.239	M-04-DC-04-0227	1,181,314	
HOME Program	14.239	M-01-DC-04-0227	486,592	
Total U.S. Department of Housing and Urban Development			1,811,436 13,211,091	
U.S. Department of Justice				
Direct Programs:				
2005 SHSGP	16.007	N/A	17,917	
Local Law Enforcement Block Grants Program	16.592	N/A	75,000	
Passed through Arizona Department of Public Safety:			,	
Victims of Crime Assistance	16 575	00.011		
Victims of Crime Assistance	16.575	99-811	2,325	
	16.575	00-904	19,169 21,494	
Passed through Arizona Governor's Division of Community Outreach:	105°			
Violence Against Women Formula Grants	16.588	A0-0025-001	334	
Passed through Juvenile Justice and Delinquency Prevention:				
Title V: Local Delinquency Prevention Program	16.548	J5-CSG-04-5273-003YI	54,108	
Passed through Arizona Governor's Division for Children:		2		
Juvenile Accountability Incentive Block Grant	16.523	99JAIBG-22	45,573	
Total U.S. Department of Justice			214,426	
J.S. Department of Transportation				
Passed through Arizona Governor's Office of Highway Safety:				
State and Community Highway Safety	20.600	2005-AL-002	13,598	
State and Community Highway Safety	20.600	2005-PS-001	6,788	
State and Community Highway Safety	20.600	2005-PO-001	12,463	
State and Community Highway Safety	20.600	2005-163-010	14,681	
State and Community Highway Safety	20.600	2006-PT-038	2,673	
		•	50,203	
Governor's Office of Highway Safety	20.601	N/A	8,000	
Governor's Office of Highway Safety	20.601	N/A	1,977 9,977	
			9,911	
Child Passenger Safety Week	20.604	2004-157b-024	4,598	
Click it or Ticket 2006	20,604	2006-OP-018	6,623	
			11,221	
assed through City of Phoenix:				
Federal Transit: Formula Grants	20.507	C2006-200	752,333	
Federal Transit: Formula Grants	20.507	C2003-40,C2004-256	6,057,103	
Federal Transit: Formula Grants	20.507	C2009-200	986,518	
Federal Transit: Formula Grants	20.507	C2006-199,C2004-257	1,233,768	
Federal Transit: Formula Grants	20.507	N/A	9,142,533	

CITY OF TEMPE, ARIZONA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006 (CONCLUDED)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA <u>Number</u>	Grantor's <u>Number</u>	Expenditures & Transfers
Passed through Arizona Department of Transportation:			
Highway Planning and Construction	20,205	N/A	160,742
Highway Planning and Construction	20.205	CM-TMP-0(025)A	253,098
Total U.S. Department of Transportation			413,840 9,627,774
NO. D. C. CO.			9,021,114
U.S. Department of Education Direct Program:			
Safe and Drug-Free Schools and Communities:State Grants	04.106		
Total U.S. Department of Education	84.186	N/A	39,941 39,941
U.S. Department of Health and Human Services			
Direct Program:			
Prevention and Treatment of Substance Abuse (SAPT)	93.959	N/A	100,995
Passed through Arizona Governor's Division of Drug Policy:			
Consolidated Knowledge Development and Application (KD&A) Program	93,230	A9-0079-011	1,096
Total U.S. Department of Health and Human Services	3-1-0	715 0075 011	102,091
U.S. Department of the Interior			
Direct Program:			
Phoenix Metro/Aqua Fria Recharge Project	15.504	01-FC-32-0010	29,946
Total U.S. Department of the Interior			29,946
U.S. Department of Agriculture			
Passed through Arizona Department of Health Services:			
State Administrative Matching Grants for Food Stamp Program	10.561	HI 461227	110,287
Total U.S. Department of Agriculture		111 /0124/	110,287
U.S. Office of Library Services			
Passed through Arizona Department of Library, Archives and Public Records:		1.	
State Library Program	45.310	N/A	792
Total National Foundation on the Arts and Humanities	13.510	NA	792
U.S. Department of the Homeland Security			
Direct Programs:			
Urban Areas Security Initiative	97.008	2004-TU-T4-0017	896,792
Urban Areas Security Initiative	97.008	2004-TU-T4-0017	642,437
Urban Areas Security Initiative	97.008	2005-GE-T5-0030	4,507
			1,543,736
Assistance to Firefighters Grant	07.044		
Assistance to Firefighters Grant	97.044	EMW-2004-FP-02943	222
resistance to Inclighted Orang	97.044	EMW-2004-FG-20175	256,887
			257,109
State Homeland Security Grant Program	97.004	2004-GE-T4-0051	247,992
Citizen Corp Council	97.053	N/A	456
Passed through Arizona Department of Emergency Management:			
State Domestic Preparedness Equipment Support Program	97.004	2003-TE-TX-0196	1 765
Total U.S. Department of the Homeland Security	37.001	2003 ID-17-0130	1,265 2,050,558
•			2,000,000
Total Expenditures of Federal Awards			\$ 25,386,906

CITY OF TEMPE, ARIZONA NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2006

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Tempe, Arizona and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2006 Catalog of Federal Domestic Assistance.

CITY OF TEMPE, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report iss	sued:	Unqu	alified		
Internal control over finance					
	weakness(es) identified? e condition(s) identified that are not		_yes _	X	_no
	d to be a material weakness(es)?		_yes _	X	_none reported
Noncompliance material to	financial statements noted?		_yes _	X	_no
<u>Federal Awards</u>					
Internal control over major					
	veakness(es) identified?		_yes _	X	no
	e condition(s) identified that are not				
considered	d to be a material weakness(es)?		_yes _	X	_none reported
Type of auditors, report iss	and on committee of Court	1.			
Type of auditors' report issued on compliance for major programs:		Unqua	lified		
		onque	dilitou .	•	
	ed that are required to be reported in				
accordance with section 510(a) of OMB Circular A-133?			_yes _	X	_no
Identification of major prog	grams:				
CFDA Numbers	Name of Federal Program of	r Cluster			
14.871	Section 8 Housing Choice Vouc	hers			
14.239	HOME Program				
97.008	Urban Areas Security Initiative				
Dollar threshold used to dis	stinguish between Type A and Type				
B programs:	- VI	\$761,6	07		
Auditee qualified as low-ris	sk auditee?	X	yes		no

CITY OF TEMPE, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

We noted no reportable conditions, material weaknesses or instances of noncompliance related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards*.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

We noted no reportable conditions, material weaknesses or instances of noncompliance related to the audit of major federal programs as required to be reported by OMB Circular A-133.

CITY OF TEMPE, ARIZONA SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2006

Status of Federal Award Findings and Questioned Costs

CFDA No. 97.004

Program Name: State Domestic Preparedness Equipment Support Program

Finding No. 05-1

Status: Fully corrected.